International Economic Environment

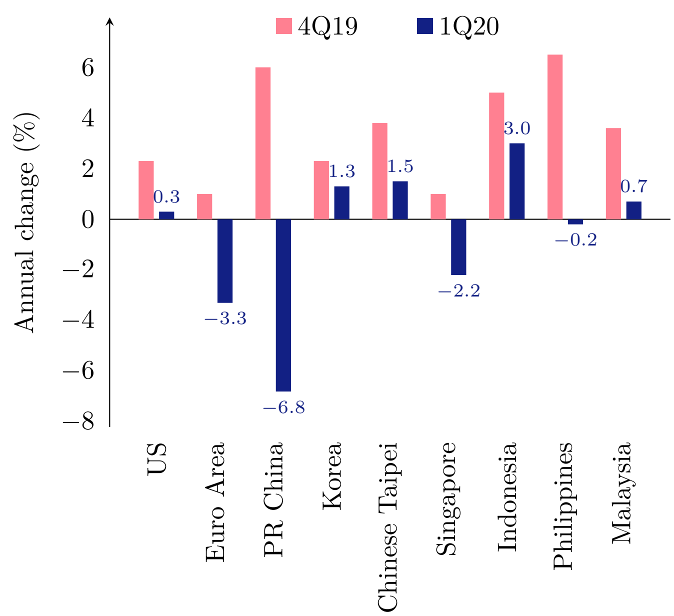
Highlights

- Global growth experienced a sharp slowdown in the first quarter of 2020.
- Exports in the regional economies showed mixed performance.
- Financial market volatility rose as the COVID-19 pandemic spread further globally.

The global economy contracted in 1Q 2020

The global economy experienced a sharp moderation in the first quarter of 2020. The rapid spread of the COVID-19 virus resulted in the introduction of lockdown and social distancing measures in many major economies. This also resulted in elevated volatility in global financial markets.

Chart 1: GDP Growth of Selected Economies



Source: National authorities

Growth in PR China contracted by 6.8%, as aggressive containment measures were introduced from 23 January to 8 April to slow the spread of COVID-19. These measures resulted in a significant decline in economic activity, as reflected by the broad-based contraction in fixed asset investments, consumption and production activities.

By the end of the quarter, most major economies globally had introduced containment measures of varying stringency, most of which remain in place. As a result, labour market conditions across major economies deteriorated sharply in 1Q 2020. Jobless claims and short-time work claims in the US and Germany, respectively, rose in March beyond levels experienced during the 2008-09

Global Financial Crisis. In the US, growth moderated sharply to 0.3% from 2.3% in 4Q 2019. Private sector expenditure and imports moderated significantly, reflecting the sudden turnaround in labour market conditions, rising risk aversion, and weaker growth prospects. Nevertheless, government consumption was sustained, providing an anchor to US growth. In the euro area, where lockdown measures were introduced earlier and more widely, restrictions in operating capacity and business activities led to contractions in economic activity.

In the regional economies, growth was influenced by two factors. Firstly, containment measures, which were introduced from end-March onwards, affected both domestic supply and demand conditions in these economies. This is with the exception of Korea, which did not impose any lockdown measures[1]. Secondly, the introduction of aggressive social distancing and lockdown measures in both PR China and the major advanced economies disrupted global value chain activity and dampened external demand conditions.

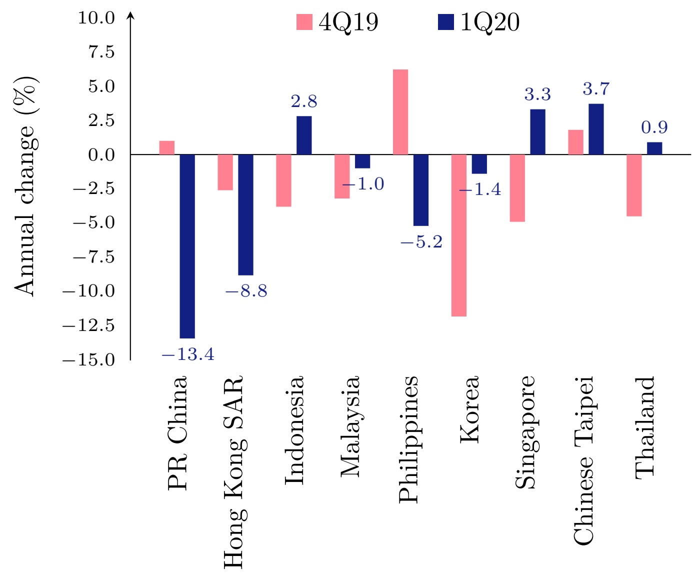
[1] Korea avoided the use of lockdown measures, despite escalating cases in Feb-20. A variety of factors enabled Korea to rely on contact tracing and targeted quarantines, including high test capacity (up to ~15,000/day), real-time surveillance technology and risk communication, easily accessible tests, as well as an adequately equipped healthcare service.

Mixed regional exports performance in the quarter

Following incipient signs of recovery in several regional economies in 4Q 2019, exports registered a mixed performance in the first quarter of 2020, with some regional economies registering marginal improvements.

Exports from Indonesia and Chinese Taipei expanded at a modest rate of 2.8% and 3.7%, respectively. In PR China, exports growth registered a sharp contraction of 13.4% in 1Q 2020, driven by both transitory production disruptions during the nationwide quarantine and the subsequent demand slowdown in major trading partners.

Chart 2: Export Growth of Selected Economies (in USD terms)



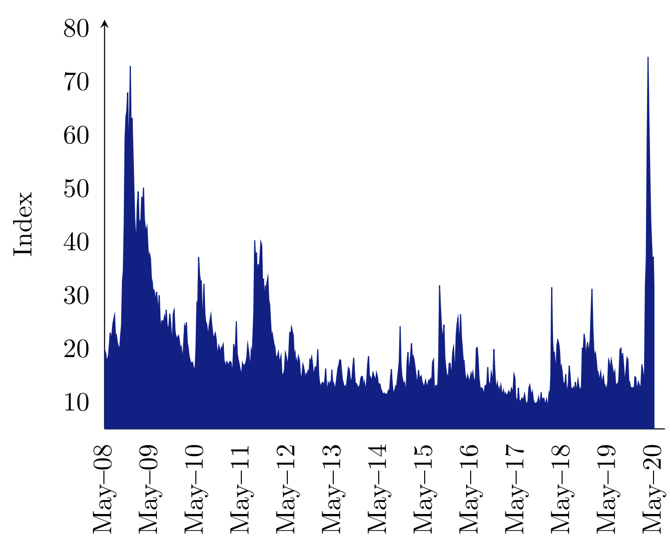
Source: National authorities

Global financial market volatility increased significantly

The escalation of the pandemic and lockdown measures resulted in weak growth prospects. Financial market volatility subsequently increased to the highest level since the 2008-09 Global Financial Crisis, weighing further on the global demand momentum. Emerging market economies (EMEs) experienced capital outflows as risk aversion rose, leading to tighter financial conditions. Global flight-to-safety behaviour led to sharp selloffs in equity markets and increased demand for sovereign bonds in major advanced economies. This was driven mainly by fears of earnings shortfalls and credit rating downgrades of some corporates.

Brent crude oil price weakened to an average of USD51 per barrel during 1Q 2020 (4Q 2019 average: USD62 per barrel), weighed by the decline in global oil demand amid the COVID-19 pandemic and concerns over the expiry of OPEC+ output cuts agreement by end-March.

Chart 3: CBOE Volatility Index (VIX)



Source: Bloomberg